

# FDIC State Profile

Spring 2004

## Connecticut

Revised employment data reflect a slightly deeper recession for Connecticut.

- New payroll data show that the recession was deeper in Connecticut than originally estimated, while other revisions show that the rate of unemployment was higher. Both revisions, however, suggest that the Connecticut economy was stabilizing late in 2003 (See Chart 1).
- Restated payroll employment data covering the period July 2002 through year-end 2003 show minor employment losses after seasonal adjustments. Employment losses appear to have abated during the second half of 2003, although employment levels over that period were below those of 1990.
- Downward revisions were concentrated in manufacturing and retail trade. Within manufacturing, the largest revisions were in durable-goods industries. In particular, fabricated metal and machinery manufacturing industries and computer manufacturing experienced large reductions in previous estimates of employment. Retail trade, too, had large downward revision, especially in food and beverage retailing.

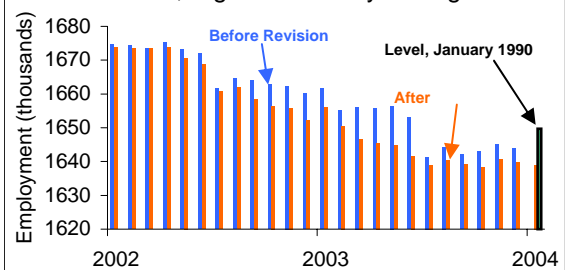
**The unemployment rate was revised higher.**

- The unemployment rate for Connecticut—estimated separately from payroll employment—also was revised to show a more severe recession (See Chart 2). New estimates, covering all of 2003, show higher levels throughout the year. At year end, the seasonally adjusted unemployment rate stood at 5.5 percent (0.5 percent higher than originally estimated), essentially equaling the 5.6 percent national rate.
- The January 2004 unemployment rate was reported to be much lower at 4.7 percent, but was estimated on a different basis than the revised data for 2003.

**Unemployment insurance trends reflect an improving picture.**

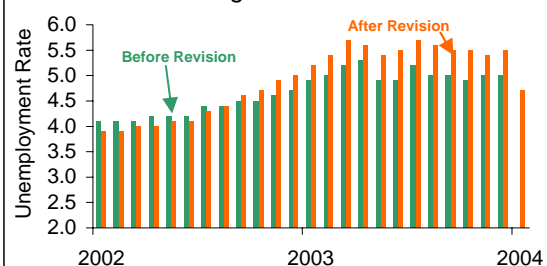
- Initial unemployment insurance claims in Connecticut provide another measure of labor market performance. The period of maximum distress occurred late in 2001 through the middle of 2002. Since then, slow but steady

**Chart 1: Payroll Employment Revised Lower in Connecticut as Employment Dips Below 1990 Levels; Signs of Stability Emerge**



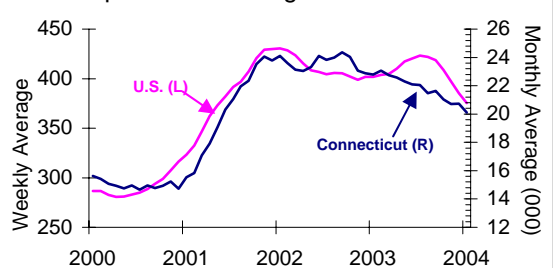
Source: Bureau of Labor Statistics of the Department of Labor, Haver Analytics. Data seasonally adjusted.

**Chart 2: Connecticut Unemployment Rate Revised Higher for 2003, Nearing National Average at Year End**



Source: Bureau of Labor Statistics of the Department of Labor, Haver Analytics. Data seasonally adjusted.

**Chart 3: Connecticut's New Unemployment Insurance Claims Continue to Show Gradual Improvement Along With the Nation**



Source: Employment and Training Administration of the Department of Labor, Haver Analytics, FDIC

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progress has been made in reducing new claims (See Chart 3).

### Housing sector remains a strong performer in the weak recovery.

- Also, in a more positive vein, housing activity in Connecticut surged during the second half of 2003, especially in terms of new construction. Permits over the second half exceeded 11,000 units at a seasonally adjusted annual rate, the highest rate in four years.

### Connecticut's commercial institutions saw net interest margins rebound slightly in 2003, while the savings institutions continued to show some pressure.

- The median net interest margin (NIM) in the state's commercial institutions rebounded to 3.91 percent as of December 31, 2003, after reaching a recent low of 3.75 percent at year-end 2002. The commercial institutions saw asset yields decline slightly, however a further decline in funding costs boosted NIMs for the year. The savings institutions, on the other hand, continued to experience NIM pressure. The NIM declined to 3.46 percent at year-end 2003, a 35-basis point drop during the year. Funding costs continued to decline as noncore funding growth slowed and core deposits grew. These improvements were more than offset by declining yields on earning assets which negatively impacted NIMs (See Chart 4).
- Connecticut's commercial institutions reported a median return on assets (ROA) of 0.75 percent for 2003, up nine basis points from the end of 2002. Gains on the sale of securities, which represented 16 percent of net income, as well as low loan-loss provision expenses boosted earnings. Unrealized gains on available for sale securities in the commercial institutions was almost zero as of December 31, 2003, virtually eliminating that source to boost income going forward. The state's savings institutions posted a median ROA of 0.84 percent at the end of 2003, a three basis point decrease since year-end 2002. Profitability has been hit by declining levels of net interest income and the inability to sufficiently increase noninterest income. Low loan-loss provision expenses and gains on the sale of securities, which represented just over 7 percent of net income, helped profitability. Unrealized gains are decreasing and represent just 0.68 percent of the available for sale portfolio.

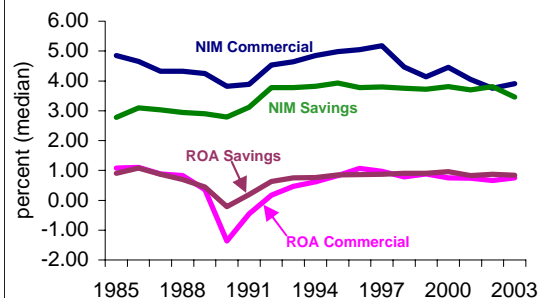
### Interest rate risk remains a concern for Connecticut institutions as concentrations of fixed-rate, long-term assets continue to increase.

- The conventional 30-year mortgage rate has declined significantly over the past several years and is still historically low. According to the Mortgage Bankers

Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13.5 percent of originations in December 2002 to almost 27 percent as of December 2003. While this ultimately may allow insured institutions to reprice some assets, they still hold large volumes of long-term assets with low fixed rates.

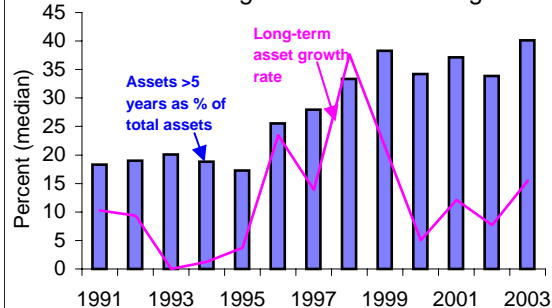
- Since the late 1990s, asset maturities lengthened at many institutions, began to moderate late in 2002, and increased again in 2003. As of December 31, 2003, the median ratio of long-term assets to total assets was historically high at just over 40 percent. With the large volume of long term assets on the books, insured institutions may be faced with a mismatch of asset and liability repricing. Net interest margin compression may occur when short-term interest rates increase as liabilities reprice at a faster rate than assets (See Chart 5).
- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 62 percent of insured institutions in Connecticut, and residential real estate loans comprised almost 57 percent of their average loan portfolio as of December 31, 2003.

Chart 4: Earnings Favorable But NIMs Still Show Pressure in Commercial Institutions



Source: Bank and Thrift Call Reports, Data as of 4th quarter.

Chart 5: Long-Term Asset Concentrations Increased During 2003 to Historic Highs



Source: Bank Call Reports, Data as of 4th quarter.

## Connecticut at a Glance

<b>General Information</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Institutions (#)	63	67	69	69	71
Total Assets (in thousands)	55,884,245	54,436,089	51,055,150	49,599,044	46,615,016
New Institutions (# < 3 years)	7	8	9	8	6
New Institutions (# < 9 years)	14	16	16	11	9
<b>Capital</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Tier 1 Leverage (median)	9.36	9.11	9.83	9.68	9.05
<b>Asset Quality</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Past-Due and Nonaccrual (median %)	0.82%	1.06%	1.06%	1.08%	1.13%
Past-Due and Nonaccrual >= 5%	1	2	2	1	2
ALLL/Total Loans (median %)	1.18%	1.18%	1.14%	1.18%	1.25%
ALLL/Noncurrent Loans (median multiple)	2.73	2.90	2.47	2.54	2.27
Net Loan Losses/Loans (aggregate)	0.26%	0.38%	0.38%	0.26%	0.28%
<b>Earnings</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Unprofitable Institutions (#)	9	9	9	7	7
Percent Unprofitable	14.29%	13.43%	13.04%	10.14%	9.86%
Return on Assets (median %)	0.82	0.85	0.79	0.95	0.90
25th Percentile	0.56	0.47	0.48	0.66	0.63
Net Interest Margin (median %)	3.66%	3.77%	3.76%	3.87%	3.89%
Yield on Earning Assets (median)	5.39%	6.18%	7.16%	7.54%	7.21%
Cost of Funding Earning Assets (median)	1.63%	2.27%	3.37%	3.76%	3.47%
Provisions to Avg. Assets (median)	0.06%	0.09%	0.07%	0.07%	0.08%
Noninterest Income to Avg. Assets (median)	0.55%	0.57%	0.54%	0.46%	0.45%
Overhead to Avg. Assets (median)	2.81%	2.95%	2.84%	2.86%	2.87%
<b>Liquidity/Sensitivity</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Loans to Deposits (median %)	74.86%	75.66%	77.27%	79.19%	78.25%
Loans to Assets (median %)	59.11%	60.48%	60.74%	62.59%	62.46%
Brokered Deposits (# of Institutions)	9	5	5	5	4
Bro. Deps./Assets (median for above inst.)	0.60%	0.10%	0.05%	3.34%	1.23%
Noncore Funding to Assets (median)	16.43%	16.02%	15.37%	13.85%	12.89%
Core Funding to Assets (median)	71.41%	72.35%	72.32%	74.17%	73.55%
<b>Bank Class</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
State Nonmember	14	16	15	13	15
National	9	8	8	8	7
State Member	1	2	2	2	2
S&L	2	4	6	7	8
Savings Bank	6	6	5	4	2
Stock and Mutual SB	31	31	33	35	37
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
Hartford CT	17	5,825,378	26.98%	10.42%	
No MSA	14	5,655,714	22.22%	10.12%	
Stamford-Norwalk CT PMSA	9	4,633,377	14.29%	8.29%	
New Haven-Meriden CT PMSA	7	3,619,504	11.11%	6.48%	
Danbury CT PMSA	5	3,721,991	7.94%	6.66%	
Waterbury CT PMSA	4	15,700,432	6.35%	28.09%	
New London-Norwich CT-RI	4	4,671,181	6.35%	8.36%	
Bridgeport CT PMSA	3	12,056,668	4.76%	21.57%	